

**AWARD CFOA CERTIFICATE**

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## California State Teachers' Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Anne Spray Kinney*  
President

*Jeffrey L. Esler*  
Executive Director

**BIENNIAL PPCC CERTIFICATE**



**Public Pension Coordinating Council  
Public Pension Principles  
2000 Achievement Award**

Presented to

**California State Teachers' Retirement System**

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

*Presented by the Public Pension Coordinating Council, a confederation of*  
Government Finance Officers Association (GFOA)  
National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

Michael L. Mory  
Chairman

## CEO LETTER OF TRANSMITTAL

December 20, 2001



California State Teachers' Retirement System  
Post Office Box 15275  
Sacramento, CA 95851-0275

I am pleased to present the Comprehensive Annual Financial Report of the California State Teachers' Retirement System for the fiscal year ended June 30, 2001. The report is intended to provide complete and reliable information as a basis for making management decisions, determining compliance with legal provisions and determining responsible stewardship of the State Teachers' Retirement Plan and the CalSTRS Voluntary Investment Program. Please note the Teachers' Retirement Plan consists of the Defined Benefit, Defined Benefit Supplement and Cash Balance Benefit programs.

I believe this report will be helpful to the California Legislature, CalSTRS members and other interested parties in understanding the California State Teachers' Retirement System, established by law in 1913 to provide retirement benefits to California's public school educators. Responsibility for both the accuracy and completeness of the financial data and the fairness of the presentation rests with me and the management of CalSTRS.

CalSTRS members, as of June 30, 2001, included employees of approximately 1,200 school districts, community college districts, county offices of education and regional occupational programs (listed starting on page 86).

The 2001 CAFR consists of five sections:

The **introductory section** contains this letter of transmittal, the administrative organization and a review of CalSTRS achievements and activities.

The **financial section** includes the report of the independent auditor, the system's financial statements and supplemental information for the Teachers' Retirement Plan and CalSTRS Voluntary Investment Program.

The **investment section** contains a consultant's report summarizing investment activity, an explanation of investment policy, portfolio performance information and various investment schedules for the State Teachers' Retirement Plan. Investment of the Cash Balance Benefit Program contributions is also discussed. Investment information is not included for the CalSTRS Voluntary Investment Program since all investments are member-directed into mutual funds.

The **actuarial section** includes the actuary's certification letters and summaries for both the CalSTRS Defined Benefit and Cash Balance Benefit programs, in addition to the results of the latest actuarial valuations.

The **statistical section** includes information on the CalSTRS Defined Benefit Program, Cash Balance Benefit Program and CalSTRS Voluntary Investment Program.

## Accounting and Reporting

CalSTRS accounting records are maintained on the accrual basis of accounting. All contributions (member, employer and state) are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the CalSTRS retirement programs.

## Revenues

Total revenues from Teachers' Retirement Fund contributions and investments for the fiscal year ended June 30, 2001 (excluding the Voluntary Investment Program) resulted in a net total of -\$5.559 billion as indicated below.

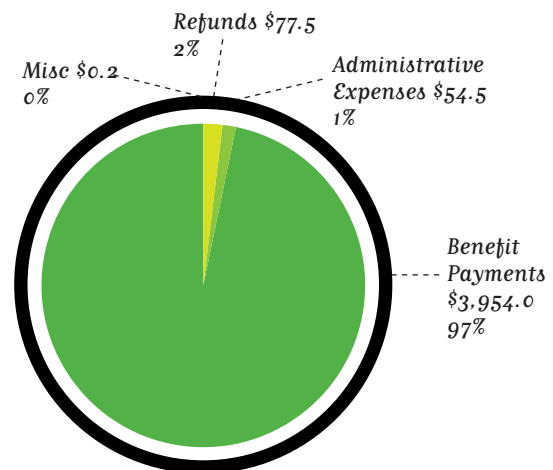
### Teachers' Retirement Fund Revenue by Type (in billions)

FISCAL YEAR	2000/2001	1999/2000	1998/1999
Member/Participant	\$ 1.843	\$ 1.532	\$ 1.424
Employer	\$ 1.884	\$ 1.590	\$ 1.476
State	\$ .946	\$ .939	\$ .350
Investment/Other	\$ (10.232)	\$ 12.690	\$ 11.798
<b>Total</b>	<b>\$ (5.559)</b>	<b>\$ 16.751</b>	<b>\$ 15.048</b>

## Expenses

The State Teachers' Retirement Plan expenses for the year totaled \$4.086 billion. Benefit payments were the largest expense to the system at 97 percent, with refunds of contributions to members/participants at 2 percent and the administrative cost comprised 1 percent of total expenses.

### Teachers' Retirement Fund Expenses by Type (in millions)



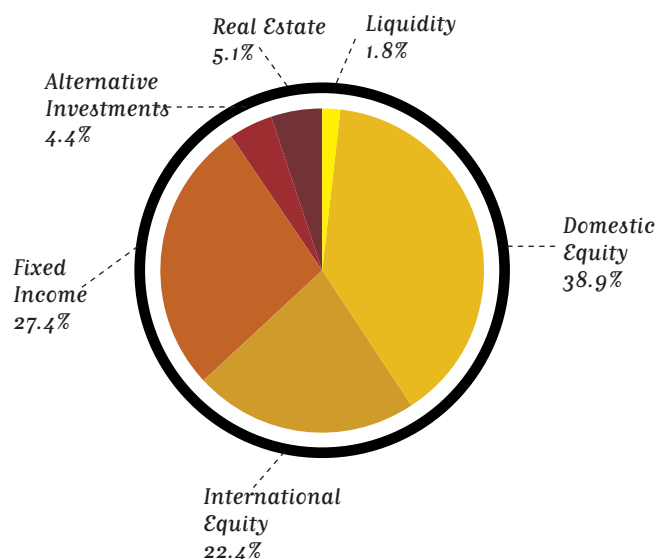
## Investments

In the past fiscal year, the fund witnessed the first global decline in stock prices in nearly two decades. The balanced asset allocation mix of the CalSTRS portfolio helped buffer the decline in values. As of June 30, 2001, each of the asset classes was near its respective long-term target and each was within the policy range. During the early part of the year the investment staff, under direct authority of the Investment Committee, liquidated some U.S. equity assets to fund purchases in alternative investments and real estate. Toward the end of the year, the investment staff shifted assets from fixed income and cash to Non-U.S. equity to help keep each asset class within the preset range of movement.

The broadly diversified portfolio declined by 9.1 percent during a year when U.S. stocks declined 14.4 percent and Non-U.S. stocks declined 24.2 percent. Diversification into U.S. bonds and real estate, which each generated a double-digit positive return, added to the overall portfolio. Over longer periods, such as five years and ten years ended June 30, 2001, the CalSTRS investment portfolio has generated returns of 9.8 percent and 10.6 percent, respectively, both of which far exceed the actuarial assumption of 8.0 percent.

### Asset Allocation (6/30/01)

Total investment portfolio of \$102.8 billion



A key development during the year was the smooth transition of the new Chief Investment Officer. Additionally, there was a transition of several members of the Teachers' Retirement Board and Investment Committee during the period. The adoption of long-term business plans for each major investment program aided in the continuity of the overall investment policy. One of the more significant decisions made by the CalSTRS Investment Committee was the Benchmark Modification Policy that led to the exclusion of the tobacco industry from all investment benchmarks.

At the conclusion of the fiscal year the Investment Committee, staff and investment consultant were in the process of a comprehensive asset allocation review. It is expected that this study will conclude by the end of the calendar year with the potential adoption of new asset allocation targets and ranges.

### Fund Financial Statements

For accounting purposes, a fund is a self-balancing group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. CalSTRS, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. Of the three fund categories: governmental, proprietary and fiduciary, CalSTRS has only fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as pension fund members.

CalSTRS has three funds:

1. Teachers' Replacement Benefit Program Fund
2. Teachers' Health Benefit Fund
3. Teachers' Retirement Fund

The Teachers' Replacement Benefit Program Fund and the Teachers' Health Benefit Fund were established as a result of recent legislation. These are programs with minor activity in the current fiscal year; therefore, the primary focus for the purpose of this discussion and analysis will be on the Teachers' Retirement Fund.

The Teachers' Retirement Fund is comprised of one plan that contains three programs: Defined Benefit Program, Defined Benefit Supplement Program and the Cash Balance Benefit Program.

CalSTRS also has a Voluntary Investment Plan, or VIP, formerly referred to as the 403(b) Plan.

## Funding

The most recent actuarial valuation, for the fiscal year ended June 30, 2000, shows the Defined Benefit Program is fully funded, having 110 percent of the funds needed to pay the cost of the benefit plan in effect on June 30, 2000. Under state law, the Defined Benefit Program receives state General Fund contributions set at a percentage of the prior calendar year's member payroll (see page x).

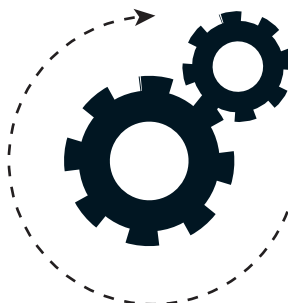
## Initiatives

CalSTRS is finalizing its strategic plan with an increased emphasis on meeting the changing needs of California's educators. Components of the plan will include ongoing assessments of customer needs, provision of consistent information through a variety of communication delivery methods and continuing efforts for a stable, strong investment portfolio.

## Awards

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the California State Teachers' Retirement System for its comprehensive annual financial report for the year ended June 30, 2000. This was the fourth consecutive year that CalSTRS has achieved this prestigious award.

In order to be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



CalSTRS also was awarded the Public Pension Coordinating Council's Public Pension Principles Achievement Award in 2000. This two-year award is for achievement of high professional standards for public employee retirement systems. The award is based on compliance with principles that support retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investments and disclosures to members.

## Acknowledgments

The compilation of this comprehensive annual financial report reflects the combined effort of CalSTRS staff under the leadership of the Teachers' Retirement Board. I commend their efforts on creating another outstanding report. In addition, I take this opportunity to express my gratitude to the staff, advisors and the many other people and organizations who have worked so diligently to assure the successful operation of the California State Teachers' Retirement System.

Respectfully submitted,

**James D. Mosman**  
CHIEF EXECUTIVE OFFICER



*The world basically and fundamentally is constituted on the basis of harmony. Everything works in cooperation with something else.*

*Preston Bradley*



## TEACHERS' RETIREMENT BOARD

**Gary Lynes**  
**Chairperson**  
(K-12 Classroom Teacher)  
Hillsborough

Term:  
December 1994 to  
December 30, 1998\*



**George W. Fenimore**  
**Vice Chairperson**  
(Public Representative)  
Los Angeles

Term:  
December 24, 1992 to  
August 14, 2002



**Paul G. Krasnow**  
(Insurance Representative)

Term:  
February 22, 2001 to  
February 22, 2005

**Phil Angelides**  
State Treasurer  
Ex-Officio Member



**Marty Mathiesen**  
(System Retiree)  
Los Altos

Term:  
June 4, 1996 to  
February 22, 2005

**Kathleen Connell**  
State Controller  
Ex-Officio Member



**Karen A. Russell**  
(K-12 Classroom Teacher)

Term:  
February 22, 2001 to  
February 22, 2005

**Delaine Eastin**  
Superintendent of  
Public Instruction  
Ex-Officio Member



**Jay Schenier**  
(School Board Representative)

Term:  
February 22, 2001 to  
February 22, 2005

**B. Timothy Cage**  
Director, Department  
of Finance  
Ex-Officio Member



**Carolyn A. Widener**  
(Community College Instructor)

Term:  
February 22, 2001 to  
February 22, 2005

Vacant: Banking Official

\* Member continues to serve at Governor's discretion.



## EXECUTIVE STAFF AS OF JUNE 30, 2001

**James D. Mosman**  
*Chief Executive Officer*



**Christopher J. Ailman**  
*Chief Investment Officer*



**Laurence P. Martin**  
*Deputy Chief  
Executive Officer  
Information and  
Financial Systems*



**Kenneth L. Costa**  
*Director  
START Project*



**Michael J. Carter**  
*Deputy Chief  
Executive Officer  
Client Benefits and Services*



**Ed Derman**  
*Deputy Chief Executive Officer  
External Affairs and Program Development*



**Peggy A. Plett**  
*Deputy Chief Executive Officer  
Administration*



**Christopher Waddell**  
*Chief Counsel*



**Elleen Okada**  
*Director of Investment Administration  
and External Relations*



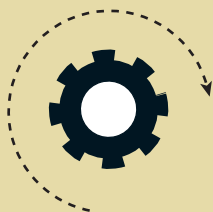
## PROFESSIONAL SERVICES



*Individual commitment to a group effort—that is what makes a team work, a company work, a society work, a civilization work.*

*Vince Lombardi*

# services



CalSTRS contracts for the services of various independent consultants essential to the effective and professional operation of the system. Milliman USA provides actuarial services and the independent auditor is PricewaterhouseCoopers, LLP. Lists of investment professionals for investment services and other consultants are provided on schedules four and five in the financial section of the report. A partial list of independent consultants is shown below.

- PricewaterhouseCoopers, LLP
- Milliman USA
- Hogan and Hartson
- Towers, Perrin & Forster

## YEAR IN REVIEW

### MEMBERSHIP

Membership in the CalSTRS Defined Benefit Program includes California public school employees, kindergarten through community college, who teach, are involved in the selection and preparation of instructional materials, or are supervising persons engaged in those activities.

Membership is in effect as long as the contributions remain on deposit with the program.

Members are employed in approximately 1,200 public school districts, community college districts, county offices of education and state reporting entities in California. The CalSTRS Defined Benefit Program includes service retirement, benefits for survivors and disability benefits.

A beneficiary of a retired member who has elected a joint and survivor option receives a continuing lifetime allowance upon the retired member's death.

As of June 30, 2001, there were a total of 515,887 active and inactive members and 170,972 retired members, disability and survivor benefit recipients. The combined total of members and benefit recipients equals 686,859, an increase of 25,467 more than the previous fiscal year.

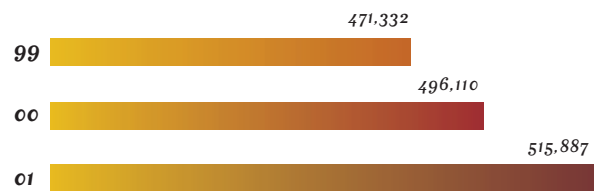
(The audit report of the independent auditors, presented in the financial section, contains Defined Benefit Program membership data as of June 30, 2000, due to the timing of that report.)

### BENEFITS TO MEMBERS AND BENEFIT RECIPIENTS

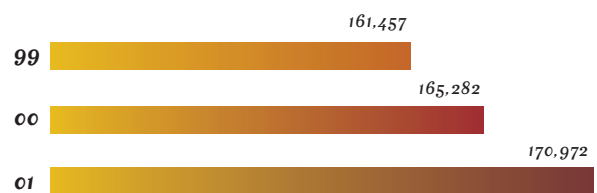
#### Service Retirement

CalSTRS desires the retirement process to be positive, rewarding and comfortable for the members. CalSTRS believes fast, accurate and efficient benefit payments are fundamental to achieving this goal.

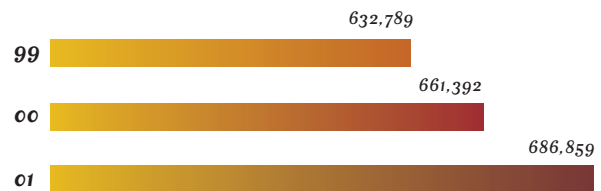
Of the 8,815 members who retired in 2000–01 fiscal year, 99 percent received his or her first benefit payment within the CalSTRS-established goal of issuing payment within 30 days following the person's retirement date (or after receipt of the completed application). CalSTRS' 30-day goal exceeds the 45-day standard mandated by law.



Active and Inactive Members



Benefit Recipients



Total Members and Benefit Recipients

## **Survivor Benefits**

CalSTRS received 5,685 survivor benefits applications. Of the applications received, 97 percent were processed within the 45-day legislative standard and 90 percent were processed within 30 days.

## **Disability**

The Disability Services Division received 600 disability applications during 2000–01.

With a commitment to member service, the Initial Review Team processed more than 99 percent of all applications within six months from the date of receipt.

The work of the Continuing Qualifications and Vocational Rehabilitation programs resulted in an annual savings of more than \$1.2 million to CalSTRS.

## **SERVICES TO MEMBERS AND BENEFICIARIES**

### **Public Service**

Public Service staff answered 166,462 calls and the CalSTRS automated attendant telephone system received 44,471. The automated interactive telephone system, Teletalk, received 68,913 calls. CalSTRS is proud of the fact that 97.55 percent of the telephone calls handled by staff were answered in the initial call, thus avoiding the need to call back the member. According to a comparative study of telephone service, this performance level rates as a “best in class” practice.

Seventy percent of all calls were answered within 3 minutes or less.

In addition, the Public Service Office received 15,491 pieces of correspondence.

## **Member Communication**

CalSTRS communicates with members and beneficiaries through the *Bulletin* and the *Retired Educator*. The *Bulletin* is mailed twice a year to active and inactive members. It contains information from CalSTRS Chief Executive Officer and the Teachers’ Retirement Board. Also presented are legislative summaries and discussions of educator issues.

The *Retired Educator* is mailed twice a year to retired members and benefit recipients. It contains issues and information of special interest to them.

A detailed program book and single-topic brochures are mailed upon request, given to members during personal interviews and are available to employers and employees by mail or telephone request. CalSTRS mails the *New Member Guide* to newly hired educators.

## **CalSTRS Internet Web Site**

The CalSTRS Web Site is intended to provide information for members, employers and CalSTRS’ business partners. The CalSTRS Web Site includes many useful features, such as the Retirement Benefit Calculator, which allow members to estimate their retirement benefit; an online feedback form; and the Employer Page to provide county and school district personnel with pertinent information. A variety of other features, ranging from the monthly Teachers’ Retirement Board agenda to various CalSTRS publications are updated throughout the year.

## **Financial Education Program**

Thirty-five Financial Education Program workshops were presented around the state under this program. Information regarding CalSTRS benefits, financial planning and applicable Social Security provisions were presented to more than 1,196 members and their guests.

### **Retirement Planning Workshops**

Personal retirement benefit interviews were provided to 31,934 members. In addition, 624 workshops covering retirement, disability and survivor benefits were presented to 20,107 members. These interviews and workshops allow members a chance to have direct contact with staff who answer their questions.

### **SERVICES TO EMPLOYERS, MEMBER AND CLIENT ORGANIZATIONS**

The Employer Advisory Committee is composed of county and district employer representatives and CalSTRS staff. The Client Advisory Committee includes CalSTRS staff and members of various organizations representing CalSTRS members and benefit recipients.

These committees meet regularly to provide a forum for active participation in the formation of CalSTRS policies and procedures in areas of information dissemination, benefit plan administration and service to members and beneficiaries.

Reaching consensus with the two committees on legislative proposals, as well as policy issues, is important to the Teachers' Retirement Board. Therefore, CalSTRS employees have also scheduled special meetings and have worked closely with both committees on plan design and other crucial member and employer issues.

Annually, CalSTRS staff members conduct an Employer Institute, with one session presented in southern California and another in northern California. CalSTRS processes, laws and policies are discussed with employer staff, giving an opportunity for CalSTRS and employers to exchange information.

CalSTRS staff members also conduct field visits to individual counties and school districts. The purpose of the visit is to provide specific information to the employer regarding CalSTRS' data reporting process. In addition to the reporting procedures, they discuss the use of the Remote Employer Access Program. This program allows the employer direct access to the CalSTRS database for verification and review of the member's service and contribution records, thereby improving the accuracy and timeliness of the reporting process.



*Coming together is a beginning, staying together is progress  
and working together is success.*

*Henry Ford*